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Handelsbanken
Wealth & Asset Management

WEEKLY BULLETIN

Should auld inflation be forgot

Key takeaways

Catching up on the festive economic news, the latest UK inflation data pointed to a drop in pricing pressures, while an update has also emerged that the domestic economy contracted in the third quarter of 2023. Meanwhile, events in the Red Sea are presenting an unwelcome challenge for global supply chains.

- Over the festive period, the latest UK inflation data showed that pricing pressures in the UK fell by more than expected between October and November 2023, with the Consumer Price Index (CPI) dropping from 4.6% to 3.9%. (As a reminder, this does not mean that prices are falling; it means that the pace of price increases is slowing.) These figures helped to ease concerns about inflationary factors like higher wages pushing up prices too far.
- The Bank of England will likely need to see inflation falling back further before it feels ready to cut interest rates. However, financial markets still responded positively to the news, and bond yields fell sharply. (Bond prices, which move in the opposite direction to yields, rose).
- A few days before Christmas, news also emerged that the UK economy actually contracted by 0.1% in the third quarter of 2023 (July-September). This was a weaker figure than initially estimated (around 0% – an estimate published in November). Retail sales figures for the UK were mixed too. Signs of slower economic growth and lower inflation support our expectations for an emerging (mild) economic slowdown.
- Bubbling away in the background, attacks on ships passing through the Red Sea have disrupted global shipping routes. Major shipping companies have been rerouting their cargo vessels around the Horn of Africa to avoid trouble, meaning that journeys are taking longer and costing more. While this may not seem especially problematic at first glance, it's worth reminding ourselves of the impact that disruptions to global supply chains have had on inflation in recent years.

Market moves

Stock and bond markets ended the year on a high note, though the performance of government bonds eased off slightly following a strong recent run.

The oil price weakened further, while the gold price rose to levels close to all-time highs.

In international currency markets, the US dollar was weak, reacting to market expectations for US interest rate cuts in 2024.

What to look out for this week

The main focus for markets this week will be the next US employment market report, which is due for release on Friday. Investors will be watching closely for any signals that could support/counter the case for cutting interest rates in the US.

Market performance (as at 31 December 2023)

	Index Levels	Last Week	Month to Date	Year to Date
Equity				
MSCI United Kingdom	2,215.1	0.5%	3.8%	0.0%
MSCI United Kingdom Mid Cap	1,327.3	0.0%	7.1%	0.0%
MSCI United Kingdom Small Cap	384.1	-0.1%	8.5%	0.0%
MSCI World (GBP)	2,462.3	0.3%	4.2%	0.0%
S&P 500 (GBP)	4,769.8	0.1%	3.8%	0.0%
MSCI Japan (GBP)	1,445.9	2.1%	3.7%	0.0%
MSCI Europe ex-UK (GBP)	1,684.4	0.3%	4.4%	0.0%
MSCI Pacific ex-Japan (GBP)	1,617.4	1.8%	8.3%	0.0%
MSCI Emerging Markets (GBP)	61,597.5	3.0%	3.2%	0.0%
Bonds				
BoA Merrill Lynch Conventional Gilts	1,048.1	-0.4%	5.8%	3.6%
BoA Merrill Lynch Index-Linked Gilts	432.0	-1.1%	7.1%	0.8%
BoA Merrill Lynch £ Corporate	413.2	-0.1%	4.9%	9.7%
Commodities				
Oil (West Texas Intermediate, GBP)	$71.6	-2.5%	-6.0%	-15.7%
Gold (GBP)	$2078.4	1.5%	1.4%	8.1%
S&P / GSCI (GBP)	3,346.6	-1.6%	-4.0%	-9.7%

Past performance is not a reliable indicator of future results. The value of investments may fall as well as rise. All performance returns are in GBP, while all index levels are in local currency.

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